



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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November 14, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **CENTER FOR HEALTHY AGING CONTRACT COMPLIANCE
REVIEW - A DEPARTMENT OF MENTAL HEALTH SERVICE
PROVIDER**

We have completed a contract compliance review of Center for Healthy Aging (CHA or Agency), a Department of Mental Health (DMH) service provider.

Background

DMH contracts with CHA, a private non-profit community-based organization, which provides services to clients in Service Planning Area 3. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. CHA's headquarters is located in the Third District.

Our review focused on approved Medi-Cal billings. DMH paid CHA between \$1.95 and \$3.75 per minute of staff time (\$117 to \$225 per hour) and \$126.68 per day. CHA's contract was for \$402,000 for Fiscal Year (FY) 2006-07.

Purpose/Methodology

The purpose of the review was to determine whether CHA complied with its contract terms and appropriately accounted for and spent DMH funds providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County

"To Enrich Lives Through Effective and Caring Service"

guidelines. In addition, we interviewed a selected number of the Agency's staff and clients.

Results of Review

Overall, CHA provided the services outlined in the County contract. However, the Agency did not always comply with all the provisions of the County contract. Specifically CHA charged:

- \$10,305 to the DMH program for interest paid during FY 2005-06 that was unallowable.
- \$2,341 to the DMH program for undocumented and unallowable non-payroll expenditures during FY 2006-07.
- Direct payroll expenditures based on estimated hours worked by each employee rather than actual hours worked.

In addition, CHA did not have a formal written Cost Allocation Plan. The Agency allocated shared program expenditures based on direct payroll expenditures. However, as stated above, direct payroll expenditures were inappropriately based on time estimates not actual hours worked.

We have attached the details of our review along with recommendations for corrective action.

Review of Report

We discussed the results of our review with CHA on August 22, 2007. In their attached response, the Agency indicated the corrective actions they plan to take to correct the issues noted in this report.

We thank CHA management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Monika White, President/CEO, Center for Healthy Aging
Public Information Office
Audit Committee

**CONTRACT COMPLIANCE REVIEW
CENTER FOR HEALTHY AGING
FISCAL YEAR 2005-2006**

BILLED SERVICES

Objective

Determine whether the Center for Healthy Aging (CHA or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

Verification

We judgmentally selected 25 billings totaling 1,224 minutes from 4,255 service minutes and five full-day Day Rehabilitation program billings from 47 service days of approved Medi-Cal billings to DMH during May and June 2006. We reviewed the Assessments, Client Care Plans, Progress Notes and Weekly Summaries maintained in the clients' charts for the selected billings. The 1,224 minutes and five service days represent services provided to 19 program participants.

Results

Overall, CHA provided the services outlined in the County contract and the minutes billed to DMH. The Agency completed the Assessments, Client Care Plans, Progress Notes and Weekly Summaries in accordance with program requirements.

Recommendation

There are no recommendations for this section.

CLIENT VERIFICATION

Objective

Determine whether clients received the services that CHA billed DMH.

Verification

We interviewed seven participants that the Agency billed DMH for services during May and June 2006.

Results

The seven program participants interviewed stated that they received services from the Agency and that the services met their expectations.

Recommendation

There are no recommendations for this section.

STAFFING LEVELS

Objective

Determine whether CHA's ratios for Qualified Mental Health Professionals staff to the total number of clients in its Day Rehabilitation Program do not exceed the 1:10 ratio required by the County contract.

Verification

We selected five days that CHA billed for its Day Rehabilitation Program and reviewed the client sign-in sheets, staff sign-in sheets and staff timecards.

Results

CHA met the staff ratio requirements for all five days reviewed.

Recommendation

There are no recommendations for this section.

STAFF QUALIFICATIONS

Objective

Determine whether CHA's treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 17 of 24 treatment staff for documentation to support their qualifications.

Results

Each employee in our sample possessed the qualifications required to deliver the services billed.

Recommendation

There are no recommendations for this section.

SERVICE LEVELS**Objective**

Determine whether CHA's reported service levels varied significantly from the service levels identified in the DMH contract.

Verification

We obtained the Fiscal Year (FY) 2005-06 Cost Report submitted to DMH by CHA and compared the dollar amount and billed units of service to the contracted units of service identified in the contract for the same period.

Results

CHA provided the service levels outlined in the County contract.

Recommendation

There are no recommendations for this section.

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account.

Verification

We interviewed CHA management and reviewed the Agency's accounting records. We also reviewed the Agency's bank reconciliation for June 2006.

Results

CHA properly recorded and deposited cash receipts timely. In addition, the Agency prepared monthly bank reconciliations. However, as indicated below in the internal controls section, CHA's bank reconciliations were prepared by staff having cash handling responsibilities.

Recommendation

There are no recommendations for this section.

EXPENDITURES

Objective

Determine whether the program expenditures were allowable under the County contract, properly documented and accurately charged to the DMH program.

Verification

We reviewed CHA's financial records and supporting documentation for 14 non-payroll expenditure transactions charged to the DMH program totaling \$10,540.

Results

CHA charged \$2,341 to the DMH program for undocumented or unallowable expenditures. Specifically,

- The Agency did not provide documentation to support two expenditures totaling \$1,025. Agency management explained that the expenditures were for psychiatric services provided to DMH clients by an independent subcontractor and a conference fee.
- The Agency charged \$1,066 for a subcontractor who was hire to provide mental health services. However, the timecard used to support the hours paid was not signed by the subcontractor or CHA's management to confirm that the services were provided.
- The Agency charged \$250 for software used to solicit donations. The contract prohibits the Agency from charging fundraising costs to the DMH program if the Agency uses the donations for other programs.

Recommendations

CHA management:

1. **Ensure that only allowable expenditures are charged to the DMH program.**
2. **Repay DMH \$2,341 for disallowed/undocumented expenditures charged to the DMH program for FY 2006-07.**

INTERNAL CONTROLS

Objective

Determine whether the Agency maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit, and tested transactions in various areas such as cash, expenditures, payroll and personnel.

Results

We identified the following areas where CHA can strengthen their internal controls:

Cash:

- The Agency did not separate cash handling and bank reconciliation duties.

Expenditures:

- The Agency did not mark invoices "paid" to prevent the same invoice from being paid twice.
- The Agency did not match the requisition, original invoice and receiving report before they paid the expenditures.

Recommendations

CHA management:

3. **Ensure that bank reconciliations are prepared by staff that does not have cash handling responsibilities.**
4. **Require that invoices are marked "paid" to prevent duplicate payments.**
5. **Ensure that prior to payment the accounts payable staff performs a three-way match of the requisition, original invoice and documentation to support the receipt of goods/services.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether fixed assets and equipment charged to DMH were used for the DMH program and were safeguarded.

Verification

We interviewed staff and reviewed the Agency's fixed assets and equipment listing.

Results

CHA pooled all their fixed assets and equipment costs for FY 2005-06 and allocated a portion to the DMH programs rather than charging the DMH program based on the benefit received from each asset. The Agency also did not maintain an appropriate listing of fixed assets and equipment. An appropriate listing would include the assigned individual, the item description, a serial number or unique identifier, acquisition cost, source of funding and the program where the asset is used. In addition, Agency management explained that it has been several years since they last conducted an inventory of fixed assets and equipment.

Recommendations

CHA management:

6. **Ensure that the Agency's fixed assets and equipment listing include the assigned individual, the item description, a serial number or unique identifier, acquisition cost, source of funding and the program where the asset is used.**
7. **Perform an annual inventory of fixed assets and equipment.**
8. **Ensure that fixed assets and equipment costs charged to the DMH programs are based on the benefits received by the programs.**

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures are appropriately charged to the DMH program.

Verification

We interviewed management and compared the payroll expenditures totaling \$19,971 for six employees for June 2006 with the Agency's payroll and time reports. We also interviewed six employees and reviewed their personnel files.

Results

CHA management indicated that they calculate direct payroll expenditures based on time estimates developed annually by each employee and management. The County contract requires the Agency to charge DMH based on actual hours worked on the program.

Recommendations**CHA management:**

9. **Maintain sufficient documentation to support actual salary costs charged to the DMH program.**
10. **Ensure that employees' timecards indicate actual total hours worked each day by program.**

COST ALLOCATION PLAN**Objective**

Determine whether CHA's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

Verification

We interviewed management and reviewed a sample of expenditures incurred to ensure that the expenditures were properly allocated to the Agency's programs.

Results

CHA did not have a written Cost Allocation Plan. The Agency allocated shared program expenditures based on payroll expenditures. However, as stated above, payroll expenditures were inappropriately based on time estimates not actual hours worked. As a result, the Agency did not appropriately allocated shared expenditures.

Recommendations**CHA management:**

11. **Develop a detailed and equitable Cost Allocation Plan and use it to allocate costs on a monthly basis.**
12. **Review FY 2005-06 and 2006-07 costs charged to the DMH program and ensure that all costs were appropriately allocated. Submit a revised Cost Report to DMH if there are any discrepancies.**

COST REPORT**Objective**

Determine whether CHA's Cost Report was completed in accordance with the County contract.

Verification

We compared the Agency's FY 2005-06 Cost Report with the Agency's accounting records. In addition, we reviewed the general ledger for any unallowable costs.

Results

CHA did not complete the Cost Report in accordance with the County contract. Specifically, the Agency did not identify administrative and program expenditures as required. The Agency also incorrectly included \$10,305 in interest related to a line of credit. The Agency indicated that the interest was charged to the DMH program in error and will work with the County to repay the \$10,305.

Recommendation**CHA management:**

13. **Accurately report program and administrative costs in the Cost Report.**
14. **Repay DMH \$10,305 for interest expenses charged to the DMH program for FY 2005-06.**



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September 20, 2007

J. Tyler McCauley

Auditor-Controller

Los Angeles County Department of Auditor-Controller

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RE: Center for Healthy Aging Contract Compliance Review – Department of Mental Health Provider LE 00211

Dear Mr. McCauley,

The Center for Healthy Aging has receipt of the review of our 05-06 Cost Report audit findings and recommendations.


The results cited that CHA charged interest that was not allowable. This was an error based on the packet of information given to providers in the Cost Report training. CMS 15-1, Chapter 2 states that interest expense is allowable if necessary to conduct business. CHA has a line of credit that is used as a liquidity facility as part of its general operations. It considers the line a cost of business appropriately allocable to its programs. The error was made in good faith and CHA will work with the County to make repayment of the money.

CHA also charged \$2,341 which did not have documentation to support the charges. We have changed our practices based on the findings and agree to repay the amount that was not allowed.

CHA is in the process of merging with WISE Senior Services. The merger will result in a larger agency with knowledgeable and experienced accounting staff and practices which will allow greater accuracy of recording keeping.

We are grateful for the longstanding relationship that we have with LACDMH and look forward to continuing our partnership in providing necessary mental health services to seniors. Please call if you have any questions.

Sincerely,


Monika White, Ph.D.
President/CEO

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